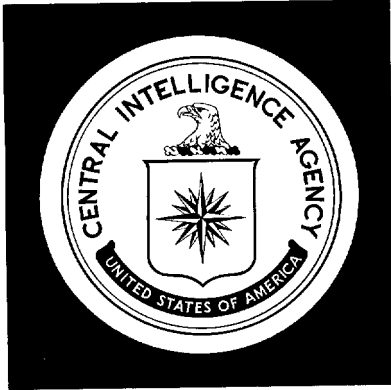


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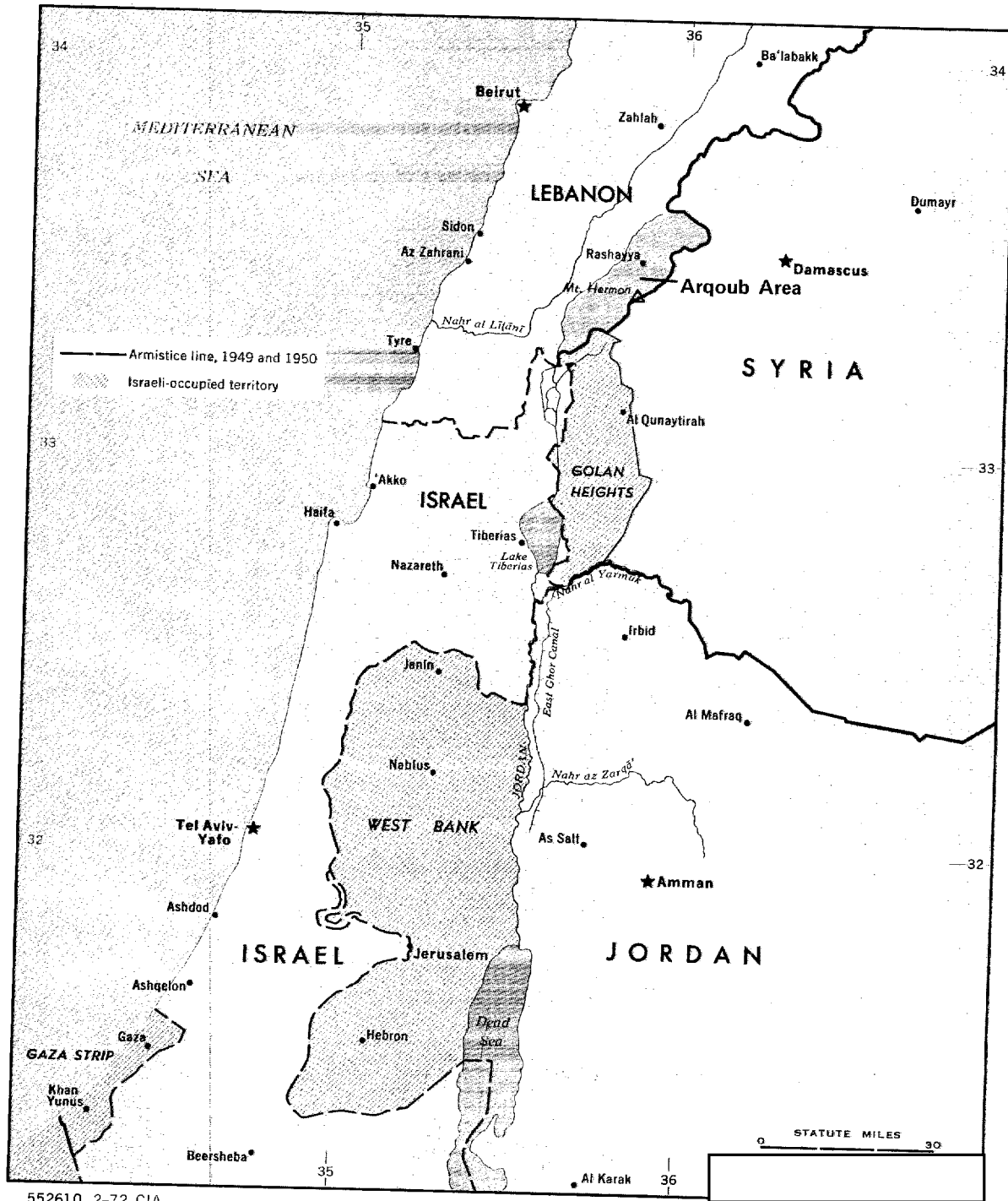
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**ISRAEL-LEBANON:** The Israelis finally withdrew their forces from Lebanon late yesterday after four days of intensive ground and air attacks.

During their stay in Lebanon, the Israelis built three roads along the western slopes of Mount Hermon in the Arqoub area to facilitate future action against the fedayeen. They have informed US officials in Tel Aviv that the roads will not be paved and therefore can be mined. This hazard will be offset, however, by the fast access to "Fatah-land" and by the increased mobility the roads will provide.

The Israelis have informed US officials in Tel Aviv that the operation was undertaken with the intention of stopping fedayeen activity for some time to come and that the government had felt that it was time to impress the fedayeen with Israeli determination to stop terrorist acts. The Jerusalem radio has reported that between 50 and 60 fedayeen were killed and 70 to 80 wounded at a cost of five Israelis wounded. A number of houses were destroyed and large quantities of arms and ammunition captured.

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WEST GERMANY - CHINA: West German interest in normalizing relations with Peking has been whetted by President Nixon's visit.

The Brandt government and the opposition parties agree on the desirability of establishing relations but differ on timing. The government intends to seek preliminary discussions in a third country capital, possibly Paris, but only after ratification of Bonn's treaties with the Soviet Union and Poland sometime this summer. The opposition, which opposes ratification of the treaties, called for negotiations without delay in a statement issued on 21 February.

The West Germans have signaled their intent to Peking several times. Last week, a Foreign Ministry official, writing in a leading economic journal, called for an agreement on bilateral trade and co-operation. Foreign Minister Scheel told reporters in late January that he could foresee diplomatic relations, and possibly a trip by himself or another cabinet member to Peking, sometime this year.

The Brandt government sees distinct advantages in establishing relations with Peking but has shown concern that they might jeopardize its rapprochement with Moscow. Bonn now appears, however, to be moving toward the view that relations with Peking could provide useful, though limited, leverage vis-a-vis Moscow, an advantage emphasized by the opposition in its arguments. In addition, Bonn feels that relations with Peking must be normalized before the two German states seek membership in the UN, possibly in 1973.

The Chinese so far have failed to respond. They have been suspicious of Brandt's efforts to improve relations with Moscow and presumably wish to make a fuller assessment of the West German - Soviet dialogue.

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ARMS CONTROL: Neither China nor France is likely to participate this year in the 26-nation Geneva disarmament talks that resume today.

UN Secretary-General Waldheim raised disarmament with delegates of the two countries last week, seeking to encourage them to join the Geneva forum. Chinese UN representative Huang Hua told Waldheim that Peking has no present interest in "bloc meetings" on arms control issues. The French ambassador said his government would not now take the seat at Geneva which it has never occupied but implied that a Chinese decision to participate could cause Paris to change its position.

One of the key topics before the conference will be the perennial question of a comprehensive ban on nuclear testing (CTB). In his speech opening the talks today, Waldheim probably will lend support to the Soviet position that national means are sufficient without on-site inspection to verify compliance with a CTB. The nonaligned states and several NATO allies now appear inclined to accept such terms in a CTB.

The other leading issue at Geneva will be curbs on the development and stockpiling of chemical weapons. The nonaligned remain especially anxious that progress in this field follow up the US-USSR draft convention on biological weapons, which will be opened for signature next month. As in the case of a CTB, the critical issue in a chemical weapons ban is the verification measures needed to ensure compliance.

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MOROCCO: The constitutional referendum tomorrow is being held against a background of continuing political, labor, and student ferment.

The opposition National Front coalition is claiming that the King deceived its leaders, whom he has been consulting over the past few months on proposed political, social, and economic changes. Although the Front has announced it will boycott the referendum, it is not ordering the rank and file of its member organizations to stay away from the polls, and some local organizations have indicated their intention to register approval.

Front leaders privately endorse the changes proposed by the King; they disapprove however of the King's action in going ahead with the referendum before the formation of a transitional government in which they could participate. They had also hoped to limit his powers more severely than is envisaged under the referendum, which increases somewhat the powers of the government and parliament and provides for the direct election of two thirds of the Parliament.

Labor seized on the government's relaxation of wage controls last fall to strike for greater improvement in pay and working conditions. The resultant disruption of production in many key sectors of the economy has contributed substantially to political unrest.

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The intermittent student boycotts and demonstrations that have disrupted university and secondary school education for the past two months have taken on an increasingly anti-monarchical tone. The arrests of student leaders and some faculty members have furnished new pretexts for continued student agitation.

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USSR-CANADA: Moscow has bought 3.5 million tons of Canadian wheat, worth approximately \$230 million, and has an option on an additional 1.5 million tons, with delivery beginning in July and continuing into 1973. The Soviets will pay cash on delivery in contrast to their request for long-term credits for US feed grains. Moscow plans to import about eight million tons of wheat valued at roughly \$500 million before deliveries under the new contract start in July. The Soviets promised Premier Trudeau last May that they would give Ottawa preferential consideration as a supplier of wheat. The new purchase will exacerbate the already strained Soviet hard currency payments position.

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CUBA: Unseasonably heavy rains during the past few weeks and severe drought conditions during the planting and growing season are expected to limit this year's sugar harvest to less than five million tons. This compares with nearly six million tons last year and 8.5 million tons in 1970. The government announced that individual monthly sugar rations will be cut from six pounds to four pounds to help meet export commitments. Sugar normally accounts for about 80 percent of Cuba's exports, and a poor crop will make it difficult to maintain imports of foodstuffs, raw materials, and capital goods at current levels.

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PERU: An international consultative group sponsored by the World Bank has agreed in principle to extend financial assistance on favorable terms for Lima's three-year investment program. This indicates the vast improvement in Peru's standing with international creditors and foreign investors following difficulties resulting from expropriation of the International Petroleum Company in 1968. Although no funds were committed at the meeting, several of the participating countries said that they now consider Peru eligible for government-to-government assistance, with easy repayment terms, in carrying out its planned \$1.8 billion 1972-74 investment program. In June 1971, major European and Japanese creditors refused to reschedule Peru's foreign debt but promised to consider investment credits at a later date.

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